

**Retired Employee Work Deductions Prior to Full Retirement Age
Report No. 05-10, September 19, 2005**

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) evaluation of the Railroad Retirement Board's (RRB) processing of work deductions for employee retirement annuities prior to the calendar year of full retirement age (FRA).

BACKGROUND

The RRB's mission is to administer retirement and survivor insurance benefit programs for railroad workers and their families under the Railroad Retirement Act. The RRB also administers unemployment and sickness insurance benefit programs under the Railroad Unemployment Insurance Act. During Fiscal Year (FY) 2004, the RRB paid approximately \$4 billion in age and service benefits to retired employees. As of September 30, 2004, approximately 205,000 employee annuitants were receiving an average of \$1,619 in monthly age and service retirement benefits.

Working after retirement impacts a railroad annuity in one of three ways:

- If the retired employee works for a railroad or railroad labor organization, the entire annuity is not payable.
- A retired employee can work for a non-railroad employer and still receive retirement benefits. However, his/her benefits will be reduced if he earns over certain limits and is under the FRA. The FRA ranges from age 65 for those born before 1938, to age 67 for those born in 1960 or later. Prior to the calendar year in which FRA is attained, the work deduction is \$1 in benefits for every \$2 of annual earnings exceeding an exempt amount. The exempt amount is adjusted yearly and was \$11,640 in 2004.
- If an annuitant works for his/her last pre-retirement non-railroad employer (LPE), a portion of his benefits are reduced, regardless of the amount of earnings or age. The annuitant's LPE is any non-railroad institution which employed the annuitant on his annuity beginning date (ABD), or for which he stopped working in order to receive an annuity.

Annuitants, under FRA, who work after retirement and expect that their earnings will exceed the exempt amount, must notify the RRB and furnish an estimate of expected earnings in order to prevent an overpayment and penalty. They must also notify the RRB if their original earnings estimate changes significantly.

The RRB's Office of Programs is responsible for monitoring annuitants subject to work deductions and adjusting benefit payments accordingly. This office, with

assistance from the Bureau of Information Services, obtains computer data extractions from the Social Security Administration with yearly earnings data for annuitants in current pay status.

The RRB 2003-2008 Strategic Plan contains a strategic goal to “serve as responsible stewards for our customers’ trust funds and agency resources.” A related objective is to ensure the integrity of benefit programs, and the RRB conducts comprehensive monitoring activities that identify and prevent erroneous payments. Effective procedures addressing this strategic goal and objective would ensure that the agency properly identifies work deductions and adjusts annuity payments.

Previous OIG evaluations in FYs 2004 and 2005 identified deficiencies in agency controls designed to ensure that work deductions were applied to annuities for spouse, disabled, and survivor beneficiaries.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this evaluation was to determine if the RRB identified and applied work deductions to employee retirement annuities accurately and in a timely manner. The scope included employee age and service annuitants in current pay status as of February 28, 2005, with an ABD of December 1, 2003 or earlier, and who were under FRA as of December 2003. We reviewed earnings prior to the FRA¹. We excluded cases with railroad earnings (service) because a previous OIG review had recommendations that addressed deficiencies in this area.

To achieve our objective, we:

- Analyzed laws, regulations, policies, and procedures.
- Tested a statistical sample of 320 employee annuitants for the accurate and timely recognition of earnings for work deductions. Further details on the sampling methodology appear in Appendix I.
- Conducted meetings with officials in the Office of Programs to discuss questionable cases, and agency policies and procedures.

This review was conducted in accordance with the President’s Council on Integrity and Efficiency’s “Quality Standards for Inspections,” as applicable to the objectives. The fieldwork was performed at the RRB headquarters in Chicago, Illinois from April through July, 2005.

¹ The OIG is performing a separate sample review of retired employees with earnings during the calendar year of the FRA and after FRA. The results of this review will be issued in a subsequent report.

RESULTS OF REVIEW

In general, the RRB is identifying and applying work deductions to employee retirement annuities with earnings prior to the calendar FRA year accurately and in a timely manner. However, our review determined that the agency can increase case accuracy and ensure more timely processing by revising its selection criteria for identifying potential LPE status annuitants. The agency also should develop and disseminate official procedures for screening and handling employee annuitants for further earnings review.

In our evaluation of 320 randomly selected employees for earnings prior to the calendar year of the FRA, we identified seven exceptions with a financial impact of \$11,850 due to incorrect payments or delayed processing. Based on sample results, we estimate the number of employee annuitants with improper payments or delayed processing of earnings prior to the calendar year of FRA is 1,518 with a one-time financial impact of approximately \$2.6 million (Appendix I).

The details of our findings and recommendations follow.

SELECTION CRITERIA FOR POTENTIAL LPE STATUS CAUSES PROCESSING DELAYS AND FAILS TO IDENTIFY ALL CASES

The agency's selection criteria for reviewing employee annuitants with potential LPE status cause processing delays and do not always identify all employees that should be reviewed.

If the employee's earnings are under the exempt amount, then the employee is only considered for potential LPE status. To prioritize cases for review, the Office of Programs only selects annuitants with an ABD within the two calendar years preceding the year under review, excluding the last three months of the calendar year.

This selection methodology is insufficient for two reasons. When the annuitant has an ABD between the October through December excluded period, or within the earnings year preceding the year under review, the annuitant's potential LPE review is delayed for one year. For the review of 2004 earnings that would be conducted during 2005, the Office of Programs would select only those employee annuitants with an ABD between January 1, 2002 and September 30, 2003. Annuitants with ABD from October 2003 through December 2004 would not be chosen for review even though a report of 2004 earnings had been obtained. These annuitants would be missed entirely in the review process unless they had 2005 earnings or some other activity that causes the agency to fully investigate the case.

In addition, the prior year earnings would never be identified for review unless there were subsequent yearly earnings, or other case activity prompting the agency to investigate earnings.

As a result of the RRB's existing criteria to select annuitants for LPE status reviews, some employees may not have work deductions applied. The annuity payments for these employee annuitants will be incorrect. Our sample included one exception with an incorrect work deduction and four cases with delayed processing of work deductions.

Recommendation

We recommend that:

1. The Office of Programs revise the selection criteria for reviewing potential LPE status of employee annuities. At a minimum, the office should select annuitants with an ABD during the last three calendar years of earnings for review.

Management's Response

The Office of Programs agrees with the recommendation. In August 2005, they revised the selection criteria, effective with the 2004 earnings report, to include annuitants with an ABD during the last three calendar years of earnings. The full text of management's response is included as Appendix II to this report.

LACK OF OFFICIAL PROCEDURES FOR SCREENING AND HANDLING CASES INCREASES RISK OF EXAMINER ERROR

There is no consistent guidance for screening and handling employee annuity cases for possible work deductions.

The RRB's on-line adjudication manual, "PRISM," is the single authorized means for issuing official written program procedures and operating instructions in the agency. The official procedures in the manuals provide a single repository of all operational information and complete instructions relevant to a particular subject. The manuals help ensure consistency of staff work and minimize errors.

The Office of Programs is responsible for screening and handling to identify annuitant cases that require further development, research, and investigation of earnings and LPE status. Screening and handling is done by a different division in Office of Programs each year, depending on the workload and availability of staff.

The on-line adjudication manual has documented procedures on applying work deductions for annuitants with qualifying earnings and/or LPE status. However,

the PRISM manual does not have procedures for screening and handling cases. The Office of Programs has chosen to rely on the various divisions to issue their own specialized procedures as part of their daily work routine.

Without screening and handling procedures in the on-line adjudication manual, there is a risk that examiners will not properly identify all annuitants requiring further earnings and LPE review. Two exceptions in our sample were annuitants for which the Office of Programs' examiner incorrectly concluded that no action was necessary instead of earmarking the case for further development and research.

Recommendation

We recommend that:

2. The Office of Programs develop and disseminate official procedures in the PRISM on-line adjudication manual for screening and handling annuity cases for review of earnings and LPE status.

Management's Response

The Office of Programs concurs and will develop and publish procedures on the PRISM manual by February 2007. A copy of management's response is included in Appendix II.

Sampling Methodology and Results – Employee Annuity Work Deductions

Objective and Scope

The objective of our test was to estimate the number of employee annuities with earnings prior to the calendar year of their FRA for which work deductions were not properly reduced for earnings. This test supported our overall evaluation objective to determine if the RRB accurately, and in a timely manner, identified and applied work deductions to employee annuities with earnings prior to the calendar year of their FRA. We selected the sample from the population of 69,305 employee annuitants under FRA as of December 2003, who were in current pay status as of February 28, 2005, and who had an ABD of December 1, 2003 or earlier.

Review Methodology

We used statistical estimation sampling using a 5% anticipated error rate, 5% precision and 95% confidence level, which yielded a sample size of 320. Estimation sampling is designed to approximate the frequency of a specific type of error in a universe. The sample size was set to provide assurance that the error rate will be estimated with a desired degree of precision. Any incorrect calculation of the work deductions, or a delay in processing the employee case with earnings for work deductions, was considered an error.

Results of Review

The 320 randomly selected employees included 99 cases with earnings. Our evaluation identified seven cases (2.19% exception rate) with \$11,850 in incorrect payments or delayed processing.

| CAUSE OF INCORRECT CALCULATION OR DELAYED PROCESSING | NUMBER OF EXCEPTIONS | DOLLAR VALUE |
|---|-----------------------------|---------------------|
| Delayed cases | 4 | \$4,851 |
| Projection – Delayed cases (based on 69,305 universe) | 866 | \$1,050,620 |
| Incorrect payments | 3 | \$6,999 |
| Projection – Incorrect payments (based on 69,305 universe) | 652 | \$1,519,873 |

Based on sample results, we estimate that the number of employee annuitants in current pay status with incorrect payments or delayed processing is 1,518. We also estimate a one-time financial impact of approximately \$2.6 million in overpayments and underpayments. At a 95% confidence level, the number of employee annuitants in current pay status with improper payments or delayed processing could be as low as 624 (\$1.1 million) or as high as 3,119 (\$5.3 million).

Conclusion

Based on the low exception rate, the RRB is accurately and in a timely manner identifying and applying work deductions to employee retirement annuitants with earnings prior to the calendar FRA year.



UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

SEP 15 2005

TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: **Draft Report – Retired Employee Work Deductions Prior to Full Retirement Age**

RETIRED EMPLOYEE WORK DEDUCTIONS PRIOR TO FRA**Overall
Comment**

We appreciate the OIG's work in this review, and have and will make the changes suggested. We do want to emphasize information in the appendix which reveals that of the \$2.6 million projected as delayed or incorrect payments, only 60% of the dollars were incorrect. The others would have been paid properly in time. For that reason, we would expect to include \$1.5 million in our FY 05 improper payment analysis as a result of this review.

**Recommendation
1**

The OIG recommends that:

The Office of Programs revise the selection criteria for reviewing potential LPE status of employee annuities. At the minimum, the office should select for review annuitants with an ABD during the last three calendar years of earnings.

OP Response We agree. In August 2005, Policy and Systems revised the criteria used in the selection of annuitants to review for potential LPE earnings effective with the 2004 EDP earnings reports.

The ABD period that was used for 2004 earnings was 1-1-2002 through 12-31-2004.

We consider this recommendation implemented.

Recommendation The OIG recommends that:
2

The Office of Programs develop and disseminate official procedures on the PRISM on-line adjudication manual for screening and handling annuity cases for review of earnings and LPE status.

OP Response We agree. *The target date for completion is February 28, 2007.*

cc: Director of Operations
Director of Retirement Benefits
Director of Policy and Systems
Executive Assistant '
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)
Chief of Training